

# EXHIBIT 17

**Sender:** Joe Lupica </O=MEADE INSTRUMENTS CORPORATION/OU=MEADE/CN=RECIPIENTS/CN=JOE.LUPICA>  
**Sent:** Wednesday, April 16, 2014 1:43:45 PM  
**Recipient:** kqy@sunny-optics.com;Hank QI <hank.qi@meade.com>  
**Subject:** FW: Meade Operations through First Six Months  
**Attachments:** Challenges at Meade Apr 2014.docx

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Hank:

I have attached a memo I would like you and Peter to review. As you are aware we have had many more challenges at Meade than we could have ever imagined prior to the acquisition. I just want to make sure both of you realize the more significant challenges we have faced. They all have a negative effect on achieving monthly sales goals and controlling costs.

If Meade is to continue to operate as an independent company then it will have to face these challenges on its own which are fine but it will take longer and the cash investment will be significantly greater. On the other hand if we take advantage of the strong relationships among Sunny, Synta, Celestron and Meade (under Peter's ownership) we can quickly turn the company around and the four companies can dominate the telescope industry. We need to have one senior management team managing Celestron and Meade. Together the two companies have extremely strong, experienced senior management team that no other company could ever overtake in the marketplace. If we continue under the current strategy if Meade gets stronger we will take sales from Celestron and SkyWatcher. This will be especially true in Europe. Meade has not been able to ship to Europe in reasonable quantities for over one full year (possibly two). Celestron and SkyWatcher business has not increased in Europe this last year. What will happen when Meade has the production capacity to ship significant quantities to Europe? If we had an overall plan among the companies then we could all succeed and dominate Europe not allowing Bresser, iOptron, and others increase their sales. These are issues Peter and David should discuss because in a few months Meade will have hired several new managers to help rebuild the company and both companies will be working against each other rather than with each other.

With my departure in August we have time to begin to restructure the companies together from May through August. I am afraid Meade may not have a senior management team in place until much later this year which will delay the turnaround another year. On the other hand if Meade and Celestron worked together under one senior management team success will come much sooner and will be guaranteed.

These are just my thoughts and Peter, David and you should do what you think is best. My opinions are as someone who has a deep desire for all four companies to succeed but I only have a short time to have any influence so I am voicing my opinion at this time.

Thanks  
 Joe

**Joseph A. Lupica, Jr.**  
 Chief Executive Officer  
 Meade Instruments  
 949-451-1450; extension 6231

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## MEMORANDUM

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**TO:** PETER NI; HANK QI  
**FROM:** JOE LUPICA  
**SUBJECT:** MAJOR CHALLENGES WE HAVE TO OVERCOME AT MEADE  
**DATE:** APRIL 11, 2014  
**CC:** MANISHI GUPTA; VICTOR ANICETO

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We have completed the first six months of ownership of Meade Instruments. We realized prior to the acquisition to turn around the company into a profitable operation we would have several challenges to overcome in the short term. Based on this expectation I assumed we would need \$ 4-\$5 million above the initial purchase price paid to the shareholders; or a total of \$ 10 million. We have encountered many more challenges than anyone could have expected prior to acquiring the company. Since Meade was in business over 40 years you assume many of departments within the company functioned properly and did not need immediate attention. This was not the case with Meade. Every department has had significant issues to resolve in the short term. All of them require cash reserves beyond the initial budget to not only improve but to assure we can operate in a reasonable business environment. I will list the major challenges we have to resolve over the next six months.

1. **Lack of Experienced Operational Personnel;** At the time of acquisition the Mexico factory had the following Management Team:

VP of Operations	Jerry Gonzales
Assembly/Stockroom Supervisor	Alex Sanchez
General Supervisor	Ivan Sanchez
Optics Supervisor	Jose Avalos
Assembly Supervisor	Freddy Aranda
Maintenance Supervisor	Jesus Aparicio

The factory was moved to Mexico in 2005. Since the factory was in operation 8 years I would assume they may have a couple of weak supervisors with limited production skills but overall the supervisors should understand the manufacturing processes. This is not the true with the supervisors working at Meade. Alex Sanchez and Ivan Sanchez responsibilities were primarily planning the workload and running the work orders as well as pulling materials for jobs. They do not have production process expertise. The biggest challenge we are facing is in optics. Jose Avalos has basic optics production

knowledge but he doesn't have the experience in running the more complex areas in the optical production department, such as, Secondaries for the ACF optical systems, he doesn't have experience in coating nor does he have experience with Coronado optics or AOOptix optical tube assemblies. Manishi has very little expertise to rely on to help build up production. We will have to hire experienced optics and coating production personnel to improve the optical production to a decent level of production. This may take 2-4 experienced opticians or optical engineers at a cost of \$80,000-\$110,000 annual salary each. The reason we need 2-4 is that the optical operators or technicians have limited knowledge of the processes and we do very limited testing of each optical component. We have to develop testing procedures for each optical component area to assure we can manufacture quality optics. Since Celestron's optical engineers are not willing to help us we will have to hire our own experienced optical engineers within the next two months. We have hired one optical coating manager that will be given full responsibility of optics in a short amount of time but he needs the help of 1 or 2 additional optical production managers if you want to turn this operation into a profitable operation. All of these expenses have not been budgeted but if we don't hire the personnel we will not be able to determine if we are manufacturing quality optics. The returns from Bresser and our U.K. distributor were more last year than Celestron gets back in 5-8 years from all customers and their sales are 8 to 10 times higher than Meade. This is a very serious issue we have to address since Meade is an optical company. I estimate the additional expenses this year at approximately \$300,000 for personnel.

**2. Poorly Maintained Equipment** Over the last four to six years Meade did not perform reasonable maintenance on their equipment. They only maintained equipment when the piece of equipment no longer operated. This is why our coating chambers are routinely going down which limits are production. We have to institute a maintenance program to periodically perform maintenance on all equipment. I have no idea of the costs of this program but it will be hundreds of thousands of dollars the first year.

Lack of experienced production supervision and poorly maintained equipment will limit the production capacity over the next several months. If the financial resources are provided to the company in the next two to four months I believe we can still ship quality products the last four to five months of the fiscal year and achieve our sales goals. Without the infusion of financial resources production in Mexico we struggle for the next two to three years while we slowly build up the internal expertise.

**3. Inventory Write Offs: RGAs.** When we took a fiscal inventory we realized we had over \$500,000 of RGAs (goods returned from customers) that we have not inspected and I am not sure if we have given customers credit for the merchandise. We increased our inventory reserve by this amount at February 28, 2014. Manishi is setting up a procedure for some personnel to begin inspecting the goods but this is another area we will need to hire personnel to monthly review merchandise returned, put it back in stock as new or have the repair department repair it and return it to stock. It has been Mead's policy to just shrink wrap the pallets and set them on a shelf in the warehouse. They had an entire container they brought from Irvine (2005) that was never inspected but destroyed. This is how little regard Jerry Gonzales had for the property of the company.

It also shows us how little the senior management of Meade cared about the operations of the business. By taking the proper steps as outlined above in 1 and 2 the returns should be reduced significantly. Meade's inventory reserve of \$1.5 million on total inventory of \$6 million is unacceptable by any operational standard. This is over 20%. It is our goal to reduce the reserve to 5% but we need to make sure we hire experienced optical and production managers as well as establish a maintenance program for all equipment.

**4. Outdated Computers & Software.** The manufacturing software Meade is using to determine bills of materials for all manufactured products, purchasing requirements, manufacturing jobs, inventory control, A/R, A/P and financial statement reporting has not been supported in over 10 years! It is considered one of the most unreliable manufacturing systems to operate because it has not been maintained or updated in over 10 years. The information is so poor that Meade purchased another system, Board, to download the ManMan information so it could be put into reports that were helpful to the employees. A very significant problem exists because the information in ManMan does not agree in total to the information reported on Board so we are not certain which is correct. It is imperative we install a new software system immediately. We have purchased it and we will be installing it over the next two to three months. Of course there are many expenses associated with this change that we cannot determine until further into the process. Meade also has not replaced any computers in many years. They all run Window XP. Windows XP is no longer supported by Microsoft. Microsoft notified companies two years ago they would not be supporting this operating system any longer but Meade did not invest in upgrading the software. The computers we own cannot run the next level operating system so we have to purchase all new computers. We have to purchase approximately 40 computers which we have done. This has been budgeted along with the manufacturing software but this project is very time consuming and requires many personnel and consultants to install the system in the shortest period of time. We have limited personnel so we are pushing all personnel harder than they have ever been pushed before. Many are not willing to dedicate themselves as required and we have either replaced them or will be replacing them shortly. Chris Morrison and Letty Johnson were two of these people that we just terminating this month. New personnel will take time to learn our systems but they will give us a chance to meet our goals.

**5. Poor A/R Records & Files.** Upon the termination of Letty Johnson, Credit Manager, I learned how poor a job we are doing at tracking receivables. The company does not maintain A/R files for their customers. They only print one copy of the invoice and send it to the customer. If there is a question regarding the invoice and the shipment they have not questioned the customer, they just give them credit. The Credit Manager issues a credit memo. If a customer pays an invoice short she also credited the entire invoice amount and then issued a credit memo for the unpaid amount. Many dealers have these "credit memos" on their account which we cannot trace back to any individual invoice. I have had to bring in two temps to help try to reconcile the customer accounts and apply credit memos related to returned merchandise which Letty had not done for over a year. I will also bring in an experienced person to make calls to the customers to

collect as much as we can as quickly as possible. I have had the support staff set up customer files and we are making copies of all invoices and credit memos issued to all customers. This will be a short term project taking us approximately 3 months. The expenses for the temps were not budgeted but it is imperative we know what each customer actually owes us. I am sure we will have to write off a significant amount of receivables related to the credit memos. I will keep you informed of this project and how much of the receivables we have to write off. **The most significant write offs of receivables will be Bresser (approximately \$350,000) and BC & F (approximately \$150,000).** These are the two distributors that have informed me in writing they no longer want to represent Meade or Coronado due to lack of consistent product shipments and the poor quality of products shipped. All of the returns to support the write offs listed above were received by Meade prior to our acquisition of the company.

**6. Defective Products priced below \$300.** The last six years Meade has had a policy to give dealers and distributors credit for any defective products shipped to them at a price under \$300 without any proof the products were defective. The dealer or distributor just had to notify Meade a product they received with a price under \$300 was defective and Meade would credit their receivable account. I believe Meade not only has lost hundreds of thousands of dollars over the past six years with this policy but many of the dealers and distributors have taken advantage of this policy related to lower priced ETX, mySky, other entry level telescopes and most accessories. This will also make it difficult to reconcile receivables. This policy was never in writing that I have been able to locate so I have instructed sales to no longer process such claims.

**7. Mexico's VAT.** Mexico has had a VAT of 11% for many years. The tax was increased to 16% this year. The government is also conducting audits on all companies in the Maquiladora district to make sure all goods are shipped out of Mexico within 12 months. Many companies are operating under the maquiladora policies but do not ship any goods outside of Mexico. They avoid the VAT tax. This is why they have instituted a certification program. Meade has known about this change and certification program since 2012 but did not clean up their inventory to make sure they avoided any parts or finished goods from remaining in the warehouse over 12 months. Over the last month or six weeks Manishi has been working with a couple of employees and two consulting firms to complete the certification documentation. The initial exposure to Meade was in the hundreds of thousands of dollars in tax and penalties. The team working on this project has adjusted the files as necessary to lower payment for the VAT certification to approximately \$70,000. There are two significant issues with this issue. One is our management team in Mexico has taken significant risks to benefit Meade because of the prior ownership's poor management of the company to avoid hundreds of thousands of dollars of tax and fines. The second issue is that it is taking a team of our staff months to complete the certification which has taken them away from helping improve the operations in Mexico. Such actions has meant lower production, higher costs and required more cash advances to Meade.

**8. Legal Fees and Fines related to Eliminating Legal Entities.** When we acquired Meade they had over ten legal entities formed in the State of California. There is only a need to have one corporate entity, Meade Instruments. They have not had a need for

the other entities for at least 8 years. They have kept them alive because of the costs it takes to merge the entities into Meade Instruments Corp. Since they have not merged them into Meade Instruments Corp. there is state tax due each year. Although it is not significant (\$800 minimum) they did not pay the taxes when due. I am merging 7 of the entities into Meade Instruments Corp. so we eliminate future taxes and penalties. The following are the entities Meade had formed and are legal entities that need to be merged into Meade Instruments Corp. to avoid future taxes and penalties:

Meade Instruments Holding Corp.

Meade Coronado Holding Corp.

MTSC Holding Corp.

MC Holding Corp.

Meade Instruments Europe Corp.

Meade.com

Coronado Instruments Inc.

There is no need to have any of the legal entities listed above. It will only cost us future legal fees, taxes and penalties. Although this may sound like a minor issue it is time consuming to fill out the documentation and it requires an attorney to complete the work so it will cost us approximately \$25,000 plus any tax and penalty.

## SUMMARY

There are many other issues we have had to work through in the last six months that I haven't listed in this report but I wanted to make sure you have a better idea why it is requiring significantly more cash to attempt to turn around Meade than anyone could have foreseen six months ago. We have to totally rebuild the company's operations, infrastructure, vendor/supplier relationships, customer relationships and the most critical area we have to overcome is the lack of understanding of most of the employees on how to conduct themselves daily to improve operations.

*Very few of the employees at Meade when we acquired the company are capable of making even minor decisions to benefit the company. This is not their fault because this was the culture Meade's Senior Management team has had in place for more than a decade; it has definitely been in place since they moved to Mexico. Can we turn the factory around to become profitable? I am very certain this can be done if you are willing to continue to allow us to hire experienced managers to lead the company and realize it will take longer than one year. Meade can be a very successful manufacturer and distributor of high quality optical products but our challenge is actually harder than starting a new factory,*

*we have had to start with a group of managers, supervisors and employees that have little knowledge of correct manufacturing processes, how to correctly test products, as well as not knowing how to manage any of the areas within the factory.*

*It will take a strong, experienced Senior Management team with experienced managers to have long term success at Meade if we continue to operate as an independent company. I am still very positive Meade will become a successful company and consumers are behind Meade I just want to make sure you realize it will take longer than we initially thought to achieve our goals.*